



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 4, 2016

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of New Market, Iowa for the period April 1, 2015 through March 31, 2016. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. The City should also prepare a delinquent account listing monthly and establish procedures to ensure bank and utility reconciliations are performed and reviewed monthly. In addition, the City should prepare a monthly City Clerk's report for review by the City Council and ensure the Annual Financial Report is properly supported.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1522-0844-EP0P>.

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CITY OF NEW MARKET

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016

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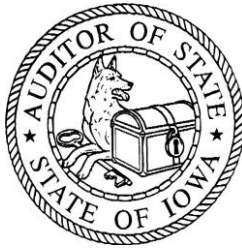
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City of New Market

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Frank Sefrit	Mayor	Jan 2016	Jan 2018
Jim Radke	Council Member	Jan 2014	Jan 2018
Gary Reeve	Council Member	Jan 2014	Jan 2018
Paul Gruber	Council Member	Jan 2016	Jan 2020
Charles Hobbrick	Council Member	Jan 2016	Jan 2020
Bob Riddle	Council Member	Jan 2016	Jan 2020
Amber Larabee	City Clerk/Treasurer		Indefinite
Jim Varley	Attorney		Indefinite

City of New Market



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of New Market for the period April 1, 2015 through March 31, 2016. The City of New Market's management, which agreed to the performance of the procedures performed, is responsible for the City's record.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.


9. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. We reviewed the annual certified budget for proper authorization and certification.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of New Market, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of New Market and other parties to whom the City of New Market may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of New Market during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

June 16, 2016

Detailed Recommendations

City of New Market

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Payroll – record keeping, preparing, signing and distributing.
- (6) Financial reporting – preparing and reconciling.
- (7) Accounting system – performing all general accounting functions and having custody of assets.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual accounts, they were not reviewed by an independent person. Also, complete reconciliations, including investments, were not performed.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank/investments balances should be investigated and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

- (C) Petty Cash – The City maintains a petty fund for which authorization could not be located. In addition, the City's petty cash fund was not included in the City's accounting records and resulting fund balances.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City funds and accounts, including petty cash, should be included in the City Clerk's accounting records. In addition, the petty cash fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

City of New Market

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (D) Accounting Records and Financial Information – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City Clerk's financial reports to the City Council do not include receipts, disbursements, transfers and balances for each fund or comparisons of actual disbursements to the certified budget by function. In addition, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate the preparation of and support for the Annual Financial Report (AFR).

Recommendation – To provide better financial information and control over budgeted disbursements, the recommended COA, or its equivalent, should be followed, including proper classification of receipts by source and disbursements by function. The City Clerk should prepare a monthly City Clerk's report which includes receipts, disbursements, transfers and balances for each fund and a comparison of actual disbursements to the certified budget by function. This report should be reviewed and approved by the City Council. In addition, year-to-date totals of receipts by fund and source and of disbursements by fund and function should be maintained to facilitate the preparation of and support for the AFR.

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report (AFR) contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures..." The receipts, disbursements and fund balances included in the City's AFR do not agree with the City's records. We were unable to determine the accuracy of the receipts, disbursements and ending cash balances by fund reported on the AFR since information supporting the amounts was not retained. In addition, approval of the AFR by the City Council was not documented.

Recommendation – The City should ensure receipts, disbursements and fund balances included in future AFRs agree with the City's records. In addition, the AFR should be approved by the City Council and the approval should be documented in the minutes record.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and delinquent account listings were not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

- (G) Utility Rates – The utility rates entered into the system are not reviewed and approved by an independent person to ensure proper utility calculations and billing. In addition, Chapter 388.6 of the Code of Iowa states in part, "A city utility or a combined utility system may not provide use or service at a discriminatory rate..." The City's Maintenance Supervisor is not billed for water and sewer usage.

Recommendation – An independent individual should review and approve utility rates periodically and when rate changes occur to ensure proper utility billings. Also, all individuals utilizing water and sewer services should be billed for those services, as required.

City of New Market

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (H) Disbursements – Invoices and other supporting documentation are not reviewed by the individual who co-signs the checks. In some cases, checks were signed in advance by the individual responsible for co-signing checks. Although the City Council approves a disbursement listing, no evidence exists to indicate invoices or other supporting documentation are reviewed. Supporting documentation is not cancelled to prevent reuse. In addition, supporting documentation for 13 of the 30 transactions tested could not be located and credit card payments are not always supported by a vendor invoice for each transaction.

Recommendation – Supporting documentation for disbursements should be reviewed by each check signer prior to co-signing checks. Checks should only be signed and countersigned when the completed check and appropriate supporting documentation are available for review. Prior to signing, the checks and supporting documentation should be reviewed by the City Council for propriety. All invoices or other supporting documentation should be cancelled to prevent duplicate payment. In addition, supporting documentation should be maintained for all transactions and all credit card transactions should be supported by a vendor invoice.

- (I) City Council Meeting Minutes – City Council meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and ensure all City Council meeting minutes are signed to authenticate the actions taken.

- (J) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jim Radke, Council Member, wife is Joyce Radke, cleaning services	Cleaning services	\$ 3,543

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

In addition, there was not a formal, signed contract between the City and Joyce Radke to establish the contract terms for the cleaning services to be provided, including the cost for those services.

Recommendation – The City should consult legal counsel to determine the disposition of these matters. In the future, the City should follow a competitive bid process when potential service providers include City employees/officials or parties related to City employees/officials. The City should also ensure a formal, signed contract is in place to establish the terms and conditions for all services provided to the City.

- (K) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections to provide additional control over the proper collection and recording of all receipts.

City of New Market

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (L) Payroll Approval – The approved salary amount and subsequent wage rate increases for the Maintenance Supervisor were not included in the City Council meeting minutes. In addition, a personnel file is not maintained for the City's Maintenance Supervisor.

Recommendation – Approved salary amounts and wage rates for all employees should be documented in the City Council meeting minutes. In addition, personnel files should be maintained for all City employees.

- (M) Payroll – The City's Maintenance Supervisor is not required to prepare and submit timesheets to support hours worked. Also, vacation, sick leave and compensatory time earned or used by employees, including related balances, are not reviewed and approved by supervisory personnel prior to processing payroll. In addition, two of four timesheets tested were not approved by the employee's supervisor and pay rates entered into the system and payroll reports are not reviewed by an independent person.

Recommendation – Timesheets should be required for all employees and should be signed by the employee and approved by the employee's immediate supervisor prior to preparation of payroll. The timesheets should support all hours worked and all hours taken as vacation, sick leave and compensatory time. Also, vacation, sick leave and compensatory balances should be monitored and reviewed by an independent person. In addition, pay rates entered into the system and payroll reports should be approved by an independent person.

- (N) Mayor/Council Member Compensation – Mayor and Council Member compensation was not approved by City ordinance as required by Chapter 372.13(8) of the Code of Iowa.

Recommendation – The City should approve the compensation of the Mayor and Council Members by ordinance, as required.

- (O) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories was not adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (P) Financial Condition – As noted in (E) above, we were unable to substantiate the ending fund balances reported in the June 30, 2015 Annual Financial Report (AFR). However, the AFR reported a deficit fund balance of \$610,409 in the General Fund.

Recommendation – The City should verify the accuracy of the fund balances reporting in the AFR. If the reported General Fund deficit is correct, the City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

City of New Market

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (Q) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and obtain the required surety bond coverage and periodically review the coverage for adequacy.

- (R) Certified Budget – Disbursements during the year ended June 30, 2015 as reported on the Annual Financial Report exceeded the amounts budgeted in the business-type activities function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (S) Receipts – One road use tax receipt for \$4,404 was recorded in the General Fund as a local option sales tax receipt when it should have been recorded in the Road Use Tax Fund.

Recommendation – The City should develop procedures to ensure receipts are recorded correctly within the accounting system.

- (T) Employee Benefits – The City budget form, prescribed by the Iowa Department of Management, requires the employee benefits levy be accounted for as a Special Revenue Fund levy. The City accounted for the proceeds of the employee benefits levy in the General Fund rather than establishing a Special Revenue Fund.

Recommendation – The City should establish a Special Revenue Fund to account for the employee benefit levy, as required.

City of New Market

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Steven O. Fuqua, CPA, Senior Auditor II
Mallory A. Sims, Assistant Auditor


Marlys K. Gaston, CPA
Director